

ECONOMIC ANALYSIS AND POLICY FORMULATION FOR POST-APARTHEID SOUTH AFRICA

**MISSION REPORT
AUGUST 1991**

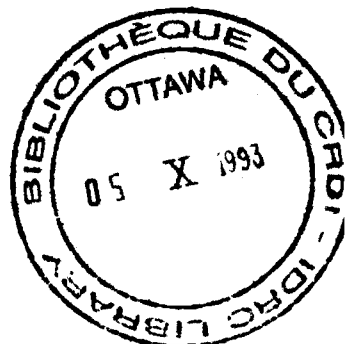
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1. INTRODUCTION

The removal of the racial basis of the economic and social structure and the reduction of poverty and inequality in South Africa are widely shared objectives of the Mass Democratic Movement (MDM). Decades of apartheid have resulted in unacceptable levels of poverty and extreme economic and social discrimination against the majority of South Africans. The injustices inflicted by apartheid have left the majority of South Africans with poor living standards and insufficient opportunities for employment and only limited access to adequate education, health care, and housing. The task ahead for building a post-apartheid South Africa hinges on the removal of these inequalities.

Today, South Africa is in a period of political transition that is expected to culminate in the near future with the establishment of a new constitution and the election of a nonracial, democratic, united government. As South Africa moves toward a post-apartheid conjuncture, it is critical that organizations of the MDM begin to prepare strategies not only for negotiations with the current government but also for governing the future economic and social development of South Africa. In preparation for this eventuality, the area of economic analysis and policy formulation has been identified by the African National Congress (ANC), Congress of South African Trades Unions (COSATU), and other progressive organizations as an urgent priority. The International Development Research Centre and the anti-apartheid economics community in South Africa have undertaken a joint mission to assess the needs of the country in the area of economic analysis and policy formulation. The findings of this mission are presented in this report.

1.1 Background

The origins of this mission date back to June 1990, when Nelson Mandela visited Canada, and in the course of a conversation with Prime Minister Mulroney, raised the issue of the urgent need for a better understanding of economic policy issues in South Africa within the anti-apartheid movement as it prepares for forthcoming negotiations. Given the experience of similar support recently provided by Canada in the area of constitutional reform, it was suggested that Canada might be able also to provide assistance in this field.

In response to this request, the Canadian Department of External Affairs approached the International Development Research Centre (IDRC) for

assistance. IDRC, which is a publicly funded organization with an international character, was considered appropriate because of its recent efforts to promote economic policy research in South Africa and its contact with economic experience in Canada and abroad. In particular, it was suggested that one of its Canadian Governors (at that time), Dr G.K. Helleiner, might be an ideal candidate to lead such an initiative.

IDRC agreed to pursue this request with the understanding that it would have a free hand to design the proposed initiative. In consultation with the Department of Economic Policy (DEP) of the ANC, it was agreed that the mission would be a joint initiative involving both external and internal members. As well, it was agreed that the principal client for this activity would be the anti-apartheid economics community within South Africa, with particular attention being paid to the ANC. Secondary clients for this activity would be the Canadian Government and other potential donor countries that may provide financial resources to support the recommendations emerging from this initiative.

1.2 Objectives

The overall objective of the mission was to assess the needs of the anti-apartheid economics community in the area of national economic policy analysis and formulation as it prepares for negotiations on the transition to a post-apartheid South Africa. More specifically, the mission was to

1. Identify the key areas of national macro-economic, trade, and sectoral economic policy on which the anti-apartheid economics community should focus its attention in the short term, paying particular attention to those economic questions that could be affected by the constitutional negotiations. These would include such fields as fiscal and monetary policy, foreign investment policy, trade policy, international and domestic finance, industrial and agricultural policy, and income and employment policy.
2. Assess the existing capacity of the anti-apartheid economics community to evaluate, monitor, and develop policy positions in the key areas identified, as well as the potential of other existing capacity within South Africa to respond to the needs as defined.
3. Suggest the next steps that may be required to complete this needs assessment (if necessary), develop means of responding to the identified needs, and begin to meet some of them, with reference both to existing resources in South Africa and to resources from Canada and elsewhere.

1.3 Methodology

During July 1991, the mission travelled to London, Johannesburg, Pretoria, Cape Town, and Durban, and met with a wide range of groups representing government, white and black business, trade unions, and political organizations (see the Appendix for a full listing).

We believe that the process of consultation in which our group engaged was, in fact, one of its most important products. New questions were raised, old approaches were questioned, important new contacts were made, opportunities for co-operation and exchange were identified, and fresh energies were tapped. We were impressed with the eagerness and vigour of those in the anti-apartheid economics community, and the latent potential for increased contributions from it to the emergence of the new South Africa.

This report of the mission's findings was prepared collectively at the conclusion of the mission. It is hoped that this report does justice to the many inputs received from so many helpful sources.

2. EXISTING CAPACITY

2.1 Introduction

There is currently a significant imbalance between the capacity of the establishment to formulate and implement economic policies and that of the prospective democratic government, particularly in the areas of policy-oriented research and skills in economic management. The considerable pool of South African (and other) economists who are both able and willing to contribute to analysis and policy formulation for a new South Africa is not being fully or effectively utilized. This is not surprising as only 18 months have elapsed since February 2, 1990, and established patterns and commitments require some time to change. What is disturbing, however, is the limited evidence of initiatives that might significantly improve the situation. Like so many others in the country, economists, including those most sympathetic to the democratic movement, seem to be waiting for others to act. In particular, many economists have explained their failure to respond to the clear need for their help in terms of the fact that "they have not yet been asked" (that is not, however, the only explanation). The need for economic policy analysis at this critical "moment" in South Africa's history is so great that it is unthinkable that where sources of the relevant experience are available they remain immobilized or inefficiently used. Leadership should now be taken by the DEP of the ANC, supported by friendly donors as appropriate, to rectify this anomalous situation.

Those who can be drawn upon fall into five broad categories:

1. Members of the democratic movement, already engaged in employment, support, or research for progressive groups, unions, etc., and demonstrably disaffected with the state.
2. Economists outside state institutions or the big business sector who are sympathetic without being activist, or even are ambivalent, neutral, or worse, but would respond if asked.
3. Economists within the state or the big business sector who are sympathetic and would like to be helpful.
4. South African economists still in exile.
5. Overseas economists sympathetic to the MDM.

All can be involved albeit in different ways. The key requirements are a clear

sense on the part of those involved that their contributions matter and structures that clarify what their specific contributions are to be.

Our discussions with a wide range of levels of the MDM have led us to identify two main functional gaps with respect to the capacity of the MDM to develop and utilize a coordinated and democratic policy process.

First, there is a dearth of capacity to support leadership in formulating coherent and viable perspectives on economics policy consistent with broad policy directions contained in key documents. The lack of capacity is in terms of skilled personnel and contextual experience as well as a lack of a clear organizational structure necessary for the provision of effective policy advice at the top end of the organization. The urgency to strengthen both forms of capacity is dictated partly by the immediate pressure on the leadership to respond to transitional anxieties and uncertainties concerning economic policy changes, and partly by the need to develop an effective mechanism for formulating economic policy. The outcome of negotiations will intensify the pressure on both fronts.

Second, a large amount of analytical and proactive research is being carried out in a largely uncoordinated fashion (sometimes with duplication) by various levels of the progressive economic communities. The output from this research tends to dissipate before finding its way to the leadership, mainly because of the lack of a body to coordinate the research process and synthesize results for policy use at the national level. The lack of such a body also creates a gap in respect of the transmission of demands for supportive research from the policy-making level to the research community.

2.2 The Department of Economic Policy of the ANC

2.2.1 Structure and Process

The current structure of economic policy formation in the ANC is as follows:

- * National Executive Committee (NEC)
- * National Working Committee (NWC)
- * Secretary General (SG)
- * Department of Economic Policy (DEP)

* **Regional Economic Associations (REAs)**

The key policy-making body is the NEC. The DEP is the body that responds to and services both the general membership, through the Regional Economic Associations, and the NEC, through the Secretary General.

The 14 Regional Economic Associations consist of representatives from every branch; their quality is very uneven. The level of economic literacy is, however, low, raising issues of economic "outreach" and the question of the need to present economic matters in a readily accessible fashion.

It was through the REAs that the DEP routed the ANC's *Discussion Document: Economic Policy*. On the basis of discussions at that level, culminating in a National Workshop organised by the DEP in May 1991, a *Draft Resolution on ANC Economic Policy for National Conference* was drawn up. Unfortunately, because of pressure of time at the National Conference, this document was not discussed in detail but was adopted as a working document for discussions on policy to be held at another conference within the next 6 months. This delay has, unfortunately, created the impression that the ANC leadership attaches less importance to economic issues than it ought to. Nonetheless, the process of taking complex economic issues to the local level is to be encouraged if the democratic nature of the ANC is to be reinforced.

2.2.2 Relations with COSATU

The ANC discussion document was the outcome of both internal discussions within the ANC and discussions with COSATU. In May 1990, a conference on economic issues was held in Harare with significant input from the Economic Trends (ET) research group working with COSATU. The Economic Research on South Africa (EROSA) group of the University of London also contributed at that meeting as a component of the DEP. In September 1990, the ANC held a further Economic Workshop of 60 people to draw up the Economic Policy Discussion Document, which included representation from COSATU. There are regular working meetings between COSATU coordinators and the DEP on issues of common concern.

2.2.3 The Department of Economic Policy

The DEP currently consists of a Head and seven other staff, of whom only four are functionally active as three are on training courses. The functions of the DEP are numerous and clearly exceed the capacity of the staff available. They consist of

1. Briefing the leadership on economic affairs.

2. Liaison with trade unions, business, and the international community.
3. Promoting the awareness and the participation of the membership of the ANC in economic policy formulation through regional associations.
4. Training of ANC cadres in economic affairs.
5. The coordination of economic research in agencies outside the ANC.
6. The establishment of an Institute of Economic Policy Research and Training that would service the MDM.
7. Gathering and processing of economic intelligence.

In reality, staff are inundated with day-to-day administrative problems and with visits and enquiries from overseas agencies and donors. The main casualty of this pressure, apart from the families of staff, is the policy formulation capacity of the DEP. The aim of the proposed Institute and the other arrangements proposed below is to shift responsibility for some of the research coordination and training away from DEP.

The DEP's approach to research is to draw on clusters of researchers in other organisations working on a common theme. Some of the themes currently being studied are a foreign investment code, regional integration in Southern Africa, conglomerates and financial institutions.

Some EROSA work, on the mineral energy complex (with the National Union of Mineworkers (NUM)) and on the savings/investment constraint and financial markets, will feed directly into the DEP.

The DEP is understaffed and as a result has little policy-formulation capacity. Moreover, some DEP staff feel themselves undertrained and lack security in their terms of employment with the ANC. There is, therefore, a visible inadequacy of professional capacity to support the leadership at the policy-making level. The gaps are not only in terms of the capacity for absorbing analytical materials and adapting them for policy purposes but also for determining requirements for supportive analytical research. Lack of contextual experience for policy guidance exacerbates capacity gaps.

Even more importantly, there has been no clear articulation of policy advice between the ANC leadership and supportive advisory structures. This is, however, being addressed. A National Working Committee has been appointed recently, representing a major step in the direction of dealing with the problem. To date, however, responsibility for the various economic portfolios has not been assigned.

As a government in waiting, the ANC needs to tighten up in this area and begin to function *as if it were* in power, thus facilitating the eventual transition. There is a real urgency to strengthen the policy-formulation capacity of the ANC, for the following reasons:

1. Economic policy that shapes South Africa's future and limits the discretion of a future democratic government is being made daily on national, regional, and local levels. The ANC needs a capacity to deal with and shape these policy issues now.
2. The ANC must be ready for assuming power and to establish early credibility in a post-apartheid government.
3. It must convince others in the MDM, and especially COSATU, that it has the capability to analyze economic issues and to formulate economic policy in the interests of the movement.
4. It has to demonstrate that it has an organized, disciplined process through which its public pronouncements on policy pass, to improve public confidence in the coherence and reliability of such pronouncements.

For all these reasons, major restructuring of some structures of the ANC and particularly of the DEP are to be found in the recommendations.

2.3 Trade Unions

The trade union movement is a major political actor in the liberation struggle. It is committed to participating actively in debate concerning the macro-economic policy and the future of the South African economy. This was stressed repeatedly by all the trade union groups that met with the mission. The issue, therefore, is how best to facilitate this, while acknowledging that the capacity of the union movement is already stretched even at the level of responding to the immediate needs of the constituency for collective bargaining.

Individual affiliates of COSATU and the National Council of Trades Unions (NACTU) rarely have research capacity and where they do the focus is, understandably, on servicing the immediate collective bargaining needs of members. There is generally little capacity, in-house, to develop policy positions even though the pressure on unions to do so is often very great. A good case in point is the NUM, which has been forced by the poor

circumstances of the industry and the serious problems facing the workers to develop its own blueprint which is, essentially, a policy position on the industry.

COSATU is committed to developing its own macro-economic policy position and has already made significant progress in this direction. It has been assisted in this process by the ET research group (discussed in the next section) and by the fact of its own leadership's interest. COSATU also has a number of commissions dealing with issues that can be classified, to some degree, as macro-economic, e.g., on industrial restructuring, workers control, an investment code, housing in a development strategy, unemployment, and health and social welfare arrangements in South Africa. Participation in these commissions by officials and shop-floor workers is voluntary and above normal workloads.

COSATU and NACTU are also preparing to enter into tripartite negotiations with the state and business on a number of issues directly related to macro-economic policy, e.g., retrenchment, productivity, industrial relations legislation, and a possible "social contract." COSATU is also seeking to address key policy issues in its proposed workers' charter.

There is general agreement in the union movement that macro-economic research will be commissioned from outside, from the network of progressive academics or service organizations (and, occasionally, more mainstream institutions such as the Urban Foundation and the Development Bank). COSATU, however, feels it needs a small core of researchers to monitor research elsewhere and to help prepare policy positions based on it. Both COSATU and NACTU believe that there is a critical need in the union movement to disseminate information to the membership in a form that can be understood and so lay the foundation for genuine worker participation in policy formulation.

2.4 Economic Trends Group

The Economic Trends (ET) research group has, for the last 6 years, provided economic policy advice to COSATU. This is a well-organized and coherent group of over 20 economists with strong and varied skills. In the first phase of the existence of ET, the emphasis was on the nature and origins of the economic crisis in South Africa. Much of the creative output of this phase was published in the recent book *South Africa's Economic Crisis* edited by Steve Gelb. This important publication provides a macro overview and a detailed look at several of the key sectors of the economy. Although primarily analytical, there is some preliminary consideration of policy options in some

sectors, e.g., employment. The book is the academic version of ET's work but the project, funded by a variety of external and internal nongovernmental organizations (NGOs) and labour organizations, also provided for the "translation" of the work into a language more readily accessible to COSATU rank and file. This aspect of the project has not, however, proceeded satisfactorily although at least one "service organization" (Trade Union Research Project (TURP) in Durban) has popularized some of ET's work.

ET operates as a purely voluntary network under the guidance of a coordinator. Its membership has to be invited to participate and while this ensures some broad compatibility in terms of theoretical and political outlook, this has led to accusations of exclusiveness.

Last year, the activities of ET were put on a more structured foundation when the coordinators' function shifted to the University of Cape Town (UCT) and was funded half time. A half-time administrator was also hired.

Starting next year, ET hopes to launch an ambitious Industrial Strategy Project under which, for the first time, ET members, including new recruits, will be financed for full-time research. This project will take 18 months to complete and is expected to address many of the industrial sector's research needs.

Future plans for ET are to extend its capacity as a network. It also plans to deal systematically with a number of criticisms that have been leveled, internally as well as by outsiders, about its structure and operations. It is acutely aware of the need to bring in more researchers who are black and/or female. It intends to look much more systematically at how to improve the accessibility of its papers to COSATU members.

A major area of concern is the question of reproducing its services through training. At the moment ET as a group does not directly help in the training of economists as researchers, although many individual members are teachers. Nor does ET have any clear idea of how to go about this, although it recognizes the problem. There is a training component in the Industrial Strategy Project but no final decision on the form it should take. COSATU would like to bring shop stewards and others into the research process for selected elements and short periods of time. Others feel it ought to provide for the training of economists. The project will absorb 12 skilled researchers; this is a feature some people are unhappy with because it threatens to make heavy demands on the limited research capacity available.

Whatever its structural problems, ET represents the strongest grouping of progressive economists in the country. Some of the members are also working with the ANC-DEP through the research clusters mentioned earlier, but these are a minority. The close relationship with COSATU and weak links

with the ANC are explained by the absence of a formal ANC presence in the country when ET was established, by the foresight and energy of COSATU in encouraging the formation of the network, by the lack of aggressiveness on the part of the ANC in attempting to draw on this progressive research community, and, perhaps, by the reticence of some members of ET to have their research associated directly with the political movement. Whatever the reasons, a strong case can be made for the ANC negotiating with ET and COSATU for assistance in some key policy areas.

ET has expertise in most sectors, but is weak in more technical macro-economic issues and in fiscal expenditure restructuring.

2.5 Universities

The involvement of academics in research of direct relevance to policy formation for the MDM is quite limited. There is no single or simple explanation for this. To begin with, most policy-oriented academic research has been carried out, hitherto, on behalf of the state and by the Afrikaner universities. Other universities have been excluded, by and large, from participating in this type of work. There is, therefore, no tradition to draw upon in the academic institutions not closely identified with the apartheid state. Policy-oriented research is generally considered inferior to strictly academic research in the university culture and there are questions about its admissibility in the tenure and promotions process. Universities and many individual academics themselves are cautious about being drawn into the political process through the research function, both in principle and especially at a time of great political uncertainty. Many also question whether the traditional culture of academic research with its individualism and elitism is an appropriate one from which to draw policy advisers who, they believe, ought to be informed by the daily struggles and aspirations of the rank and file members of the democratic movement, who inhabit an entirely different cultural space.

Putting aside such cultural constraints, there are several practical, contextual difficulties inhibiting a more extensive involvement in policy-oriented research. The universities generally have been subjected to severe fiscal restraint in recent times, while enrolments have increased significantly. Teaching loads are, therefore, very heavy and time available for any kind of research is accordingly limited. Graduate programs that promote research are quite underdeveloped. Several academics observed that the international academic boycott has had the effect of isolating many South African academics from both theoretical and policy developments elsewhere so that the general academic environment is not a very lively or stimulating one in terms of either teaching or research.

These are all real constraints, but it is important to emphasize that they have not been absolute. There is a significant number of progressive economists who have undertaken and who continue to undertake policy oriented research of a high quality. The core of these function as members of ET, discussed in section 2.4, but not all of them. Some are to be found in Afrikaans-speaking universities but most appear to reside in other universities. The MDM has a good idea of who they are and where their research interests lie. They could, therefore, be drawn into the policy-formulation process through research if they could be persuaded of the need and if their time could be freed up. Provision would have to be made, though, for linking those with similar interests as they are scattered throughout the country.

In addition, there are other economists of liberal persuasion whose work could be of use to the MDM and who readily work with it. These might tend to have a more constrained view of the policy possibilities than the first group but could be useful as members of teams or for specific, clearly defined areas of policy.

Together, these two groups represent a substantial body of skills that could be drawn upon in the coming critical phases of policy determination. The key to their availability will be the availability of support systems (replacement, money for release time, travel costs, assistance, etc.) and a guarantee that standards of academic integrity and independence will be maintained in the research process.

2.6 Service Organizations

A major source of progressive research is the service organization sector, which is highly developed in South Africa and contains groups working at very different levels of analysis with widely varying capacities, resources, and skills. Most emphasize a bottom-up, grassroots contribution to policy and seek to develop capacity at that level. The theoretical and practical insights of groups such as PLANACT, the Built Environment Support Group (BESG), and the Centre for Organization, Research and Development (CORD) would be enormously important in the development of sectoral policies covering, on the one hand, urban development and housing and, on the other, rural and regional development.

A number of groups, such as South African Labour and Development Research Unit (SALDRU), Labour Research Service (LRS), TURP, Labour and Economic Research Centre (LERC), Community Research Unit (CRU), and Labour and Economic Research Project (LERP), service the immediate

collective bargaining, training, or educational needs of the trade union movement. They coordinate their activities to avoid duplication and, hence, specialize. Most of these are also involved, at one level or another, in macro or sectoral policy research and development, but here, coordination within the service organization sector and with other institutions could be strengthened. Thus, CRU and LERP are embarking upon research into industrial restructuring much of which seems to be already covered by the ET group and EROSA/DEP. Likewise, both LRS and TURP are undertaking research on job-creation programs and while both appear to be well organized, systematic, and insightful, it is not clear that these particular activities are coordinated. They may also need to feed their findings analyzing experience elsewhere into groups that have the capacity to develop the very technical macro parameters of any such program.

Several service organizations (e.g., TURP, LERC) have developed expertise in "translating" technical economic research into a form that can be disseminated widely in the community. These capacities need to be strengthened if the policy-making process in South Africa is to be truly democratized.

Researchers in service organizations, like those in the trade union movement, earn very low salaries compared with researchers in the private and state sectors. They are there largely out of a commitment to activism and this limits the pool of qualified researchers from which they can draw.

2.7 Business and Government

The capacity for research and policy formulation in the MDM is paltry compared with that of business and government. The government alone admits to spending in the region of 500 million South African rand (ZAR) on research and this is unlikely to be a comprehensive figure; neither does it cover amounts spent on policy formulation nor the amount spent by the Reserve Bank on its large contingent of economists. The capacity of the establishment is, therefore, formidable, as shown by the rash of documents on national economic strategies, alternative economic scenarios, and macro and sectoral policy and the like recently produced by business and the state. Furthermore, business and the state have the resources that enable them to draw on the services of private consultancy firms with economic expertise and on academics acting as consultants.

In the rapidly changing political climate, certain segments of the state and business are anxious to engage the MDM in discourse and some are more than willing to share their economic intelligence. For the most part though, this huge research capacity is not and has not been available to the MDM.

The best that the MDM can hope to obtain from this research capacity in the immediate future is, therefore, likely to be unconditional access to its information base on which proposals for macro and sectoral policies and strategies are being formulated.

3. PRIORITY AREAS FOR ECONOMIC RESEARCH, ANALYSIS AND POLICY FORMULATION

3.1 Introduction

When a movement has been repressed in every way for decades, preparation for government is a daunting task. The expertise of other countries making transitions to majority rule suggests that it is critically important that economic policies be soundly and carefully formulated. Solid economic analysis and policy is a necessary condition for effective government (though it is certainly not a sufficient one). In preparing for the transition to democratic government, primary attention should be given to economic policy formulation and capacity building in this area. The democratic movement in South Africa has not yet demonstrated its grasp of this need. We recommend specific measures to address it below.

In this section we identify the most urgent and important areas for national-level economic policy in a new South Africa, and in the transitional period en route to it. We do not address the evident needs at more micro, local, or regional levels except insofar as they relate to national policies, since we had neither the expertise nor the time to do so properly and since they were, in any case, beyond our stated mandate. At the same time, it is important to recognize that the subnational and local needs for effective economic policy are of utmost importance for the future constitutional and development needs of South Africa. Constitutionally, the division of South Africa into regions could have important implications for the macro-economy. There is a need to analyze the effects of macro-economic policies on the urban, rural, and regional context, as well as to recognize (and research) the effects of urban, rural, and regional processes on national economic policy.

Our terms of reference suggested that, in the identification of key areas of economic policy for focused attention, we should pay particular attention to those economic questions that might be affected by constitutional negotiations. We have interpreted this part of our mandate very broadly and have not addressed concrete controversial issues such as the precise nature of economic rights or the appropriate structure of government. Rather, we have sought to improve the structures for and quality of economic decision-making in the belief that if these matters are addressed well, the economic aspects of constitutional negotiations will be among the areas in which important social benefits will be realized.

For each identified priority area we assess the time frame within which

policy analysis is required and the local capacity to provide it. Recommendations are then offered.

3.2 Areas for Immediate Action

3.2.1 Monitoring

An important but often underrated aspect of research, analyses, and policy formulation is the monitoring of developments in the economic arena. State economic policy is clearly changing and the danger is that immediate initiatives might "lock-in" the MDM to particular policy directions for many years to come. Likewise, the world economy is undergoing radical structural and institutional changes that will necessarily have an impact on the performance of the South African economy, its structure, and its growth potential. The private and parastatal corporate sector is constantly adjusting to the changing competitive and regulatory environment, both domestic and foreign, and adapting organizational structures, management techniques, and production technologies to respond to the pressures from labour for improved terms of employment. Even the key personalities, and the interests they represent, will change over time. It is essential for the MDM to be kept abreast of such developments as they occur, to understand them, to react to them, to inform the membership of possible implications, in both the short and the long term, and to adjust policy if necessary.

This is not merely a matter of taking newspaper clippings and filing them, important though this is. Literature monitoring must also include relevant technical publications, South African and foreign, the Government Gazette, White papers, Bills, Acts, regulatory announcements, reports on state commissions, annual reports and accounts, statistical bulletins, and, if possible, the Reuters economic service or its equivalent. The reports of the key international economic institutions, the International Monetary Fund (IMF), the World Bank, the General Agreement on Tariffs and Trade (GATT), the Economic Commission for Africa (UNECA), Southern African Development Coordination Committee (SADCC), etc. must also be monitored in a selective and systematic fashion. The literature of the individual components of the MDM must also be circulated widely within the movement itself.

Beyond the written word, information is increasingly being made available on computer disk or through computer networks and the movement needs to develop a capability of selectively tapping into this form of communication where appropriate.

Finally, a good deal of monitoring is best performed through regular personal contact with informed individuals within the system: be it in the state

structures, business, service organizations, trades unions, or internationally. A systematic and decidedly selective approach is needed here too.

The monitoring function is crucial and should not be left to develop randomly. It requires a careful review and evaluation of sources of information and the adoption of a clear strategy best to keep abreast of developments. This strategy would need to take into account the limited resources in terms of people, materials and time, available to the movement.

3.2.2 Macro-economic Framework

Economic policymaking for a post-apartheid South Africa must take place within some agreed overall macro-economic framework. The democratic movement does not have such a framework. This limits its capacity either to assess the overall implications of the specific policy proposals that are placed before it, or to evaluate the macro-economic implications of alternative overall policy programs. The lack of an agreed-upon macro-economic framework also undermines business confidence in the future prospects of the economy as a whole. Existing models incorporate the objectives and perspectives of others and fall short of the requirements of the South African democratic policy-making community. It is critically important that this community, and the ANC in particular, have, and be seen to have, their own internalized macro-economic "model" or "frame," and thus their own macro-economic projections.

Such a "frame" need not, at least in the first instance, be highly complex. It should, however, be capable of generating projections of such key macro-economic variables as private and public consumption, savings, and investment; exports and imports of goods and services; external capital in-flows and out-flows, and their major components; formal employment; major categories of income distribution; and the rate of price inflation. It should permit the assessment of the overall implications of alternative scenarios for structural change over both short- and long-term time horizons. It should also incorporate estimates of critical macro-economic constraints upon economic performance, whether savings, foreign exchange, fiscal, or others.

There exists sufficient domestic capacity that, with appropriate funding, could be quickly diverted to the preparation of such a macro-economic framework. A start on this research enterprise should be launched as a matter of the highest priority, rivalled in immediate importance only by the urgent need for increased ANC/DEP capacity for current economic monitoring. In developing this framework, it would be helpful to draw upon external expertise in structuralist macro-economics on a relatively short-term basis. The input of an experienced and sympathetic economic modeller from outside South Africa

could make an important and early contribution to the development of an appropriate economic framework. He or she could both assist in the process of its creation, drawing on the experience of others, and work with local economists to accustom them to the appropriate techniques of analysis and model maintenance. Advantage should also be taken of consultation with others doing related work in government, the business community, the Reserve Bank, the World Bank, and the IMF, all of whom should be expected to make their own work on South Africa available to those engaged in this research. A conference to discuss progress could also be very useful some time in the next 4 or 5 months. Provision needs to be made for the future recurrent costs of this activity and responsibility will have to be assigned for keeping the data flow into the model current, utilizing it for current policy assessments and projections, updating the model itself, and keeping it maximally relevant.

3.3 Areas for Urgent Action

3.3.1 Tax Policy

The role of taxation in reducing poverty and inequality is twofold: enhancing the fairness of the tax system and improving its efficiency in raising revenue for financing redistribution. Some trade-offs between the two objectives may need careful review. It is, however, argued widely that the revenue role of the tax system deserves more attention as it supports expenditure restructuring that will most likely be the more important instrument for effecting desired redistribution. An important constraint in achieving both objectives is the need to minimize any negative effect on allocative efficiency or investment. In the long run, the growth of the tax base is the key to sustainable financing.

Research on tax policy could therefore focus on three aspects: equity, revenue efficiency, and allocative efficiency.

1. *Equity of the tax system:* Progressivity of the tax system as influenced by the tax structure, rate structure, and tax exemptions is the main issue. Particular attention in this regard needs to be paid to the effects of tax exemption of income from wealth on already high wealth concentration. The close link between conglomerates and finance houses is relevant in this regard because it affects opportunity for tax evasion. Also important in this regard is an assessment of the double tax relief on certain categories of income and a review of various tax treaties governing double tax relief for nonresident business.
2. *Revenue efficiency of the tax system:* Research into the possibilities of widening the tax net and raising tax yield through improved compliance

forms the core of the required research. The main concern here would include reduction of incentives for evasion, compressing the range of exemptions, and a search for possible new taxes. Among issues of tax evasion that have been raised, the main one is the link between high tax rates and conversion of current income into nontaxable wealth instruments. Three possible new taxes have often been mentioned: capital gains tax, minimum corporate tax, and "retributive" land tax. It is argued that a capital gains tax will improve yield from income tax as it reduces evasion; minimum corporate tax will not only improve compliance but also penalize inefficient firms; and retributive land tax will transfer rental incomes attributable to the apartheid system for public use. A careful assessment of revenue potential and collection costs must be made.

3. *Allocative efficiency effects of the tax system:* Trade-offs between revenue objectives and allocative efficiency effects of trade taxes is a prime issue for research. These assume particular importance in the light of proposals for trade policy reform, including tariff reforms, aimed at increasing the outward orientation of the industrial sector. What alternative non-redistributive taxes exist and what is their potential for filling in the revenue gaps? Sectoral neutrality of the tax system is another issue raised in relation to minimizing distortions in allocative efficiency. Perhaps the most important concern raised by tax experts is that taxation should not discourage investment by overburdening sources of investible funds. The effects of tax rates and exemptions on the level and structure of investment should receive research attention.

There is ongoing work at University of the Western Cape (UWC) and elsewhere on financing constraints on redistribution and growth that includes a specific focus on tax policy, and some of the legal aspects of tax reforms. This is an area where local capacity definitely exists and could be harnessed.

3.3.2 Government Expenditure Restructuring

Since the state budget is both a reflection of, and an important mechanism for, the reproduction of the social and economic relations and institutions of apartheid, the restructuring of fiscal expenditures will be an important priority for a democratic government. Restructuring will have a number of components that will involve difficult political decisions and that will generate complex political reactions. This exercise cannot be seen, therefore, as a simple technical one. Nonetheless, it will, of necessity have technical content in that each component of restructuring must be assessed carefully and in detail in terms of its impact on fiscal expenditure.

The first component will be the reduction in spending on administration

as a result of the abolition of apartheid policies. To determine this will require a careful analysis of budgets by departments and by level of authority (state, homelands, provincial, regional, and local) and an unravelling of transfers from higher to lower levels. Against this must be set the cost of alternative administrative structures yet to be determined in a new, unified system of government.

The second component will be the peace dividend deriving from reduced military activity that must be based on realistic expectations about how quickly demobilization can take place and on views within the democratic movement about the role to be played by the military in the new era. The peace dividend should also include savings in the security/intelligence apparatus, police and prisons. Against this, however, must be set the costs of revamping the police to provide a higher level of personal security to those sections of society currently underserved.

The third component will be the bold program of expansion of expenditures on health, education, housing, rural and urban infrastructure, and social services for the majority of the population that was disadvantaged under apartheid. This, the most central component of the exercise, would need to be based on a careful costing of the chosen method of delivering enhanced services in these areas and cannot be undertaken in isolation from the development of detailed policy and programs for each sector. In this respect, calculations of what it would cost to raise all levels to those currently enjoyed by the white minority are of limited use, except perhaps in the field of state pension equalization. New delivery systems will be needed to reach the black population in the service sectors and policy emphases might differ significantly from those currently employed to service the white population (e.g., a greater emphasis on preventative health measures, nutrition, and sanitation than on curative health care). Providing minimally acceptable standards of service as quickly as possible is certainly a more humane approach than providing higher levels to a few in the short-term, and is likely to be advisable politically.

Yet, given the constraints of tax capacity and fiscal stability within which this program must proceed, a careful review of current state spending on services to the privileged minority will necessarily be an essential component of this exercise. Identification of the scope for improving the efficiency of this spending, e.g., by reducing excess capacity (allowing more access by the black population to hitherto underutilized white facilities) or shifting the pattern of spending (from costly transplants to more mundane medical needs currently not met) would be the first step. Actual scaling back of services might be the second; alternatively, user fees for the rich might be contemplated.

At least two other components need to be added to round off the exercise. The first is some estimate of the costs of introducing an affirmative action-cum-training program for the civil service to facilitate black access. The

second is some notion of how an income policy might affect salaries and benefits of state employees and the distribution of the various subsidies in the budget. Once policy is determined in each sector and costs are available, issues of training and sectoral priority would need to be addressed.

Although preliminary work has already been carried out on expenditure restructuring, it has focused on fairly macro estimates, generally using existing service levels to whites as a yardstick. What is required is a coordination of more detailed sectoral analysis using alternative assumptions about policy and program delivery.

3.3.3 Housing and Infrastructure

From a macro-economic perspective the issues that need examining and on which policy needs to be formulated, are as follows:

- * What would a program of housing and infrastructure cost?
- * How quickly could it be phased in?
- * How would it be financed?
- * What impact would it have on income generation, employment creation, the budget, the import bill, and the inflation rate?

Although the improvement of housing and infrastructure, in both rural and urban areas, is a matter of urgent social need that will command attention in its own right, it has taken on broader dimensions in South Africa. Expenditures in these areas are being recommended as a central element in an "inward industrialization" development strategy for the long-term and as a short-term Keynesian "kick start" to economic recovery. For all these reasons, it is crucial that policy be developed on the basis of careful, rigorous, economic analysis.

Precise answers to the macro question of how quickly needs can be met and how this will affect short- and long-run growth strategies, require that a whole series of more micro questions be answered first. To begin with, infrastructural needs cannot be assessed without prior agreement on the spatial dimensions of urban and rural policy. This involves resolving where people will live and how apartheid conceptions of urban and rural development will be restructured. The whole question of restructuring local government and local government finance and possibly means of transportation comes into play here. Beyond this, the technical approach to the provision of needs must be agreed upon and this will require considerable input from the affected communities. What type and level of service for sewer, water, and electricity

is desired and is it feasible? Over what period of time might it be provided? What kind of housing should be provided and by whom? How will legal and regulatory requirements of zoning, land tenure, etc. be met? Based on answers to these questions, a further set of micro issues will need addressing. What is the capacity of the construction sector to meet these needs and should the task be handled by large corporations or small black construction businesses? Is the supply of artisans adequate or would crash training programs be needed? Has the building materials industry the capacity to deliver what is needed or is additional investment required?

Clearly, the macro analysis need not wait until all the individual policy elements are in place and until all the necessary micro research has been conducted. A broad-brush exercise is needed within the next year. This could be based upon a few of the more feasible approaches to housing and infrastructure and use crude estimates of import and employment coefficients and backward and forward linkages, perhaps drawn from a sample of actual building experience. This would enable the movement to incorporate this sector into a macro framework and say something more concrete about "kick-starts," growth strategies, and budgetary implications. These data would be refined as more systematic research yields results and the macro calculations themselves would help shape micro policy.

Capacity exists in BESG, PLANACT, the Local Government Project, the universities, and the Urban Foundation to deal with most of the issues raised here over a relatively short period of time. What is missing, however, is input from economists to incorporate these into a macro-economic framework for the purpose of assessing both the "kick-start" hypothesis and the feasibility of a housing/infrastructure-driven growth path.

3.3.4 The Financial System

1. Financial institutions and policy have an important role in supporting redistribution and growth through mobilization of investible funds and direction of investment toward poverty-reducing expenditures. As the public sector is the key agent for implementing redistribution, public debt and its financing assumes a key role. In this regard, research issues include
 - * Investigation into the mechanisms for channelling mobilized private resources to the public sector. Should the control of financing sources through prescribed asset requirement (for PIC, life assurance, and private pension funds) be reintroduced and at what levels of prescription? What are the ramifications for the returns to the ultimate holders?
 - * Research into the macro-economic implications of various levels

of public debt and various financing modes is important for determining the limitations of deficit financing in general and sustainable levels of public debt in particular.

2. There is considerable concern with the links between highly concentrated conglomerates and financing houses and the de facto "internal" capital markets. How do their operations affect the efficiency of the financial sector? What are the possible mechanisms for gaining access to their resources?
3. The decline in private (financial) saving in the last decade has become an issue for concern. Research here could focus on the savings behaviour of the major groups in the economy and its determinants. The role of incentives, particularly interest rates, is worth focusing upon as available evidence from empirical studies on their role in other countries is broadly inconclusive.
4. Monetary policy pursued by the Reserve Bank, mainly via interest rate control, has recently focused on reducing and controlling inflation. Tight monetary policy has put undue pressure on investment and on the public deficit via the rise in the real cost of servicing public debt. A better understanding of the inflationary process in South Africa, particularly the role of nonmonetary factors, is fundamental to adequate assessment of this policy. The recessionary stabilization being pursued may be at the cost of choking potential growth revival.

More work needs to be done to understand the functioning and efficiency characteristics of the complex structural links of highly concentrated conglomerates and financing houses. Using a flow-of-funds analysis, a study of this linkage and effects on efficiency is currently under way. Studies on savings behaviour could be undertaken using local expertise and drawing on the vast literature available on the subject. Work on public debt and financing options is also in progress. There is a need for providing a coordinating structure that brings these components together.

3.3.5 Labour Market, Employment Creation, and Income Policies

In broad outline, the MDM has already formulated policies in this area. However, these policies need to be refined, fleshed out, and given programmatic content. Their consistency with macro-economic stability also needs assessing.

The restructuring of industrial relations legislation to afford protection to all workers, including domestic and farm workers, and to extend existing

rights of workers would be a high priority in the short term. So would the introduction of an affirmative-action program covering both the public and private sectors that would aim to redress racial and gender imbalances in the employment profile.

The principal ongoing need in this sector will, however, be that of policies for reducing unemployment and the poverty that accompanies it. The creation of new jobs will be among the highest priorities of a democratic government and a whole series of issues need to be addressed if a coherent policy is to emerge. The questions of retirement/early retirement and pension levels is relevant here. A clear understanding of the extent and nature of existing underutilization of capacity would be needed if short-term prospects for employment growth are to be properly addressed. The level, direction, and intensity of investment would also need to be addressed with realistic assessments being made of how policy might best shape these.

These are complex issues requiring both analysis of the existing situation and past trends as well as policy prescription informed by this analysis. What explains falling rates of investment and which factors could be influenced by state policy? How can financial resources, especially those controlled or subject to influence by the democratic movement, be channelled to maximize long-term employment growth? Can the channelling of investment into specific sectors raise the labour/capital ratio and, if so, how best might this be achieved? To what extent have low labour/capital ratios been the result of government intervention that might be usefully reversed?

A central component of policy development here will be that toward public works, housing, infrastructure, and electricity. While providing services that are needed urgently, in their own right, it is their employment-generating qualities that are the object of research here. Thus, in judging what scale of programs will be manageable from the point of view of macro balance, the desired employment intensity and wage bill will need to be predetermined. Such programs are likely to be a feature of economic policy in a democratic South Africa in the long term. The issue of using such expenditure as a short-run "kick start" also needs to be assessed in detail.

The whole issue of land redistribution and rural development has an important employment element to it as well and this needs to find reflection in policy in these areas too.

There is a widely held view that apartheid policies have stunted the growth of small business and the informal sectors. This needs to be examined and a policy developed on how best the movement might approach these sectors, bearing in mind the political complexities involved.

Careful consideration will need to be given also to the development of

policy in the areas of training and skill upgrading. Black access to employment and to the better paying jobs, both existing and to be created, will depend crucially on reversing past inequities in skill formation. How will this be best achieved and how will the resources be found?

Finally, policy is required on a whole series of issues loosely captured under the heading of "income policy." First, what will be the democratic government's policy on welfare, a critical issue for the unemployed and unorganized work force? Pension policy would also fall under this heading. Minimum wage policy will also need to be addressed as will policy covering wages, salaries, and benefits in the state sector. The whole area of subsidies will also need looking at from an income-policy perspective. Tax policy, too, needs to be assessed within this broader framework as adjustments to tax rates and structure might often be preferred to more direct state intervention in income determination. This might apply as well at the lower end of the income distribution, where a negative income tax or guaranteed annual income might also be considered in preference to a patch work of welfare benefits.

There is some existing research capacity in these areas in ET (land, policies to deal with unemployment, training, housing, electricity, and technology), in the service organizations (investment redirection and job-creation programs), in universities, and in COSATU itself. Coordination is needed as is additional capacity to develop policy much further in some areas, e.g., affirmative action, training, and income policy.

3.4 Other Priority Areas

3.4.1 Trade and Industrialization Policy

Critically important to development strategy for the new South Africa are the future roles of trade and industry. There is widespread agreement that the future prospects of the mining and agricultural sectors are somewhat limited and that manufacturing's share of overall economic activity, already larger than those of agriculture and mining, will have to rise. There is also fairly broad agreement that manufacturing for export will have to play a major role in the dynamics of future growth in South Africa. COSATU, the South African Chamber of Business (SACOB), and the Industrial Development Corporation (IDC) all agree on the need for "industrial restructuring." At this point, however, a major debate is emerging as to the specifics of the objectives and the best means of attaining them. It is a debate in which there will be a high premium on objective analysis of alternative strategies and policy possibilities. So far, it has not been at a very sophisticated level. There is considerable risk that the current government, in response to interest group pressure, weak

analysis, or both, may initiate policies that prejudice future possibilities.

Among the important issues of detailed research and analysis are the following:

- * the broader social implications of alternative industrial sector characteristics in terms of employment creation and income distribution, intra-urban and inter-regional locational objectives, ownership structures and empowerment, skill expansion, technological development, etc.;
- * the sequencing and pace of restructuring and the character of "buffers" and "safety nets" for potential losers, particularly for disadvantaged groups, in the process; and
- * the selection of appropriate policy instruments, both to achieve general objectives and to promote more specific or targeted objectives in the spheres of external trade expansion, domestic industrial growth, and social objectives.

There has been considerable research on the current characteristics of the South African industrial sector and the nature of its trade regime; but much of it is fairly superficial, dated, or both. Considerable expertise in this area can be found in the universities and in such state agencies as the Development Bank of South Africa (DBSA) and IDC. The World Bank will also be generating analyses in this sphere. From the standpoint of the democratic movement, and particularly COSATU, the most important potential source of new analysis and advice in this sphere is the major research project on industrial restructuring that is being launched by the ET research group. Only a portion of the required external funding has so far been secured (from IDRC), but negotiations for the remainder are at an advanced stage. Assuming the necessary funding for the ET project is secured, and taking account of the likely prospect of continuing contributions and critiques from many other interested professionals in the South African economics community, this area does *not* seem to us, despite its great importance, to require research and policy analysis additional to that already planned. By the time a new government assumes office, it should have a relatively plentiful supply of material and analysts with which to work.

3.4.2 Balance of Payments Management

External balance is a critically important ingredient in the overall macro-economic framework described as an urgent priority above. There is also a need for more detailed analysis of the key policies underlying the balance of external payments, particularly exchange rate policy, policy relating

to external payments and currency convertibility (exchange controls), and policies relating to external capital (foreign direct investment and external borrowing).

There is some independent detailed research underway or planned in this sphere. The United Nations Centre on Transnational Corporations is working, for instance, in support of efforts in the democratic movement to elaborate an appropriate "code" and overall policy toward foreign investors. This is important work that should be accelerated.

The bulk of current information, expertise, and analysis in this sphere is inevitably housed within the institutions of the state, notably the Reserve Bank and the Ministry of Finance. The greatest problem for the democratic movement in this sphere is not so much the development of independent research and analysis (though some of this is necessary and some is implicit in the development of an independent macro-economic framework) as it is gaining access to information and experience within state institutions that have not so far been characterised by much "transparency" or openness to "outsiders."

It should be a matter of high priority for the "shadow" Minister of Finance to secure access to the data and analyses generated in the "inner precincts" and upper levels of the state's institutions of financial management. Opportunities should also be explored for the placement of progressive South African economists and prospective administrators, for the purpose of learning and gaining experience, with the Central Bank, Finance Ministries, and other relevant institutions of countries friendly to the democratic movement.

3.4.3 Agricultural and Rural Development

In a country that is as dependent on urban and industrial economic activity as South Africa, it is easy for rural and agricultural issues to be relatively neglected. Urban bias in the make-up of economic policy debate typifies many countries that are far more agricultural than South Africa. Yet, the rural areas contain many of those who have been most disadvantaged by the apartheid system and the agricultural sector is characterized by extremes of inequality that cannot survive in a post-apartheid South Africa. It will be extremely important that policy-oriented studies of such issues as the following be launched:

- * the optimal use and ownership patterns of agricultural land in the various regions;
- * the infrastructural and support services required for a "liberated" smallholder sector and the costs and optimal means of supplying

them;

- * the change in the volume and pattern of food demand implied by the restructured patterns of growth and income distribution in a new South Africa; and
- * the capacity of alternative agricultural systems to supply it, etc.

In our survey of macro-economic policy research needs and capacities, we have not had an opportunity adequately to address the overall capacities of the research community that is seeking to develop policies for agricultural and rural development. We consider these issues to be of very great importance to the realization of the democratic community's aspirations for the future of South Africa. However, policy changes in this area may be slower to elaborate.

We recommend that a network of economic research and policy analysts in agricultural and rural development be developed as soon as possible to develop appropriate policies in this arena. We have not included agricultural/rural issues among our top priorities at this stage, but that reflects, above all, our assessment of the likely sequence of policy development in a post-apartheid South Africa, not their inherent relative importance.

3.4.4 The Role of the State In Economic Management

The role of the state in the economy is a subject that has received much research attention both in the broad conceptual literature and that on country experiences. The old controversy as to whether the state should intervene in economic management beyond the traditional principle function of providing public goods, or not, is a thing of the past in most of the rest of the world. A consensus seems to have emerged around a socially efficient interventionist role of the state in the sphere of economics. Socially efficient intervention is characterized by its effectiveness in reaching targets and minimizing leakages, reducing distortions of private decisions, and ensuring sustainability by maintaining a healthy resource base for the predominantly redistributive role of the state. Successful and unsuccessful experiences of state intervention are abundant across the developing world and the Newly Industrializing Countries (NICs).

Where substantial controversy remains is on the issue of the modes of intervention. Experience has ranged from the use of state ownership of the commanding heights for gaining control of management and the resource base to minor corrective interventions (fine tuning) related to market failures. It is in this context that the anxieties surrounding possibilities of nationalization have arisen in South Africa, prompting the stepping up, on the part of the

establishment, of privatization (the dismantling of the public sector) of the economy as a preemptive strategy. The use of the public sector to promote the interests of the minority in the past four decades set a precedent for its possible use to reverse fortunes in the future. The anxieties have taken on a political tone and there is growing need to contrast preemptive privatization with technical analyses of alternative policy possibilities.

The balance between public ownership and indirect state regulation of the private sector to a large extent is one of the key concerns of the ongoing monitoring that we have recommended above, indeed of any research on a mixed economy. Certainly, the size of the public sector would grow with increased use of ownership for control purposes. Experiences in other developing countries have pointed to managerial stress in the state with the overgrowth of this sector. In others, the public sector has actually become a drain on state resources. There are thus strong merits to an early and careful consideration of how far one uses ownership as a means of control.

The South African economy is characterized by exceptionally high levels of concentration and centralization. The large conglomerates span the mining, manufacturing, and financial sectors, and there is an urgent need to examine these institutions both with respect to the inequities they represent and the inefficiencies that they generate. Among the peculiar features of the South African private sector is the size of conglomerates and their close linkages with finance houses. What antitrust and regulatory mechanism can be brought to bear upon these structures to ensure compatibility between private and social benefits?

The size and power of the conglomerates have particular impacts on the ability of workers and their unions to participate in corporate decision-making. Several of the conglomerates have introduced limited employee share ownership participation schemes that have met strong opposition from the unions. This area requires further research and policy formulation.

Capacity for research in this area within South Africa is abundant and can be supplemented by access to the vast literature on the numerous experiences elsewhere. Early, quick analysis can be done pertaining to the broad ownership issues and the appropriate regulatory framework to generate policies that can reduce uncertainties and stem the anxieties on the question of nationalization. Research on mechanisms for controlling conglomerates may require more extensive effort, since their behaviour, complex structures, and operations need to be carefully analyzed first.

3.4.5 Relations with Southern Africa

South Africa has hitherto played a markedly destructive role in the region. A post apartheid government has the potential to correct this by enhancing South Africa's capacity to contribute to the development of the region. However this capacity should not be taken for granted. There are clearly fears in the rest of the region that a South Africa fully integrated into the region's economy may, given its relative power and size, dominate the region as well as siphon resources from its smaller neighbours. These fears must be addressed by the formulation of policies that will create conditions for balanced and equitable regional growth.

The task is rendered more urgent by current South African government initiatives (usually via parastatals like Eskom and Transnet) that will powerfully impact upon regional economic relations. Similar considerations apply to internationally financed regional projects.

There is some research capacity in this area in the democratic movement. However, considerably greater capacity exists within the region in SADCC, the Preferential Trading Agreement (PTA), and in their member countries' national universities and research institutions. Links between these various regional institutions and South African researchers should be deepened to enhance domestic capacity in regional policy formulation.

4. TRAINING AND CAPACITY BUILDING FOR ECONOMIC POLICY

4.1 Introduction

Our earlier discussions on capacity weaknesses in policy-oriented research and policy guidance identified gaps in terms of skills and experience in the progressive economic community. As a result of these gaps, there is currently a significant imbalance between the capacity of the establishment to formulate and implement economic policies and that of the prospective MDM government. Outside the establishment, moreover, an acute racial and gender imbalance also exists. There was a conspicuous absence of female and black professionals in the large number of meetings we conducted. Exclusion of the majority of South Africans from formal training opportunities and participation in economic management under apartheid largely accounts for the racial imbalance. In blunt terms, the democratic economics community is dominated by white males.

Even more disturbing is the apparent lack of attention within the democratic economic community to redressing these imbalances. There are many possible reasons for this: insensitivity to the magnitude of the problem; an understandable emphasis on rapid output that conflicts with the rather slower process that would incorporate a training dimension; the lack of experience of South African researchers with the training process; etc.

Within the ANC, the Department of Human Resource Development is responsible for coordinating training activities to enhance skills and provide experience through attachments. This responsibility includes the task of ensuring affirmative action with respect to gender and race. Not much is happening in this area because of both resource constraints and the need for a carefully laid out strategy. COSATU's training programs and those of the various service groups focus on operational skills and raising the absorptive capacity of their membership for meaningful policy dialogues. Established universities have started improving access for blacks through establishing remedial programs, but progress has been slow and financially constrained. Black universities are strapped both in terms of finances and human capacity for expanding programs.

The development of hands-on skills in the policy-research process, both through interactions and learning by doing, increased opportunities for formal training and exposure to operational contexts and experience form core components of the required training for capacity building programs.

A workshop bringing together South African researchers with external economists experienced in the area of training is one possible mechanism for introducing a greater sensitivity to, and capacity for, appropriate training. External support should be available for this.

External resources to facilitate research should always include resources for training; eligibility on the part of South African researchers for external resources should normally be conditional upon the provision of training.

4.2 The Research Process and Capacity Building

The process of carrying out research in teams offers training opportunities of two main types. First, through the research team comprising senior experienced researchers and junior professionals, the process of research can offer ample opportunities for passing on skills and experience to the these more junior (professionally) participants. Second, by including in the team researchers with policy experience, the research work can be tempered by policy sensitivities and concerns, hardly available in pure academic work, and this improves skills for policy responsive analytical research. Research workshops generally help to broaden contextual awareness and enhance sensitivity to analytical issues beyond one's own subject area.

We should hasten to caution, however, that the use of the research process for training purposes may delay delivery of output and hence constrain time-sensitive assignments. Nevertheless, in terms of post-formal training through learning by doing, hardly any other modalities exist.

4.3 Formal Training

Formal training can also be adapted to impart policy analytical research skills if graduate students are systematically involved in resident research programs. A good example of this is the organizational structure of the Economic Policy Research Project based in the Economics Department at the University of the Western Cape. The master's economics program is interfaced with the research project, which, in addition to the participation of the staff in the department, draws on academicians from other universities. The students are formally integrated into the research project (as part of their training) in this way providing hands-on skills for policy research. The South African Labour and Development Research Unit (SALDRU), based in the Department of Economics at the University of Cape Town (UCT), attempts to impart

hands-on skills to students by interfacing academic programs with participation in research as well as training of their clients at the grassroots level. We found these initiatives truly innovative and worthy of consideration for adoption elsewhere.

4.4 Redressing Racial and Gender Imbalances

Under the apartheid system of separate education, access to training in economics for blacks was confined to so-called ethnic universities. Access for blacks to more established economics departments in what are now legally opened universities, is still largely problematic as a result of large shortfalls in pre-university background education relative to white entrants, financial constraints, and an absence of strong remedial programs. Access to economics training for black women has been particularly restricted given the predominance of patriarchy in South African society. Such programs as have been established so far remain woefully inadequate.

This is a problem that will take a long time to rectify as it is a result of a long period of systematic exclusion from opportunities to learn. Nevertheless, there is an urgent need to embark upon its resolution as soon as possible in a systematic, well-coordinated, affirmative-action strategy. Elements of the strategy include measures to increase access to training programs through well-thought-out placement and remedial programs which pay particular attention to ensuring gender balance. Because self-funding capabilities constrain access to good training programs, suitable financial assistance may have to be arranged. Training institutions with specialised affirmative action programs are worthy of support both to strengthen intake capacity and to raise the quality of learning.

4.5 Contextual Training

Leadership and professionals outside the establishment lack the experience in actual management of the economy and policy analysis skills. The objective is to provide broad familiarization with institutional functions and operations to those with future policy responsibilities. The transitional period to a new democratic government is short and requirements are large. At the same time, we appreciate the concerns that have been expressed in the democratic movement about the legitimacy of the policy of placing trainees in current structures to gain experience. Three possible alternative modalities were raised

in the course of our extensive discussions: external attachments to similar institutions operating elsewhere; organizing training programs with experienced persons from elsewhere across a broad range of functions; and an intensive investigation to identify sympathetic professional cadres currently in the establishment.

5. RECOMMENDATIONS FOR SOUTH AFRICA

5.1 Introduction

Progress toward a stable, equitable, and efficient economy in a democratic South Africa depends upon the adequacy and quality of economic analysis and policy in the democratic movement. We have found much to encourage us in our assessment of domestic capacities in this regard. But there is also much that remains to be done. Capacities must be developed in both individual and organizational ways. Given the speed of current change, the scope of ongoing negotiations and economic policy discussions, and the fragility of the process, the need for improving the economic policy formulation capacities of the democratic movement is urgent.

We have been particularly struck by the dearth of capacity to support leadership in the democratic movement by formulating coherent and viable perspectives on economic policy consistent with the broad policy directions contained in its key documents. The lack of capacity is not merely, or even primarily, in terms of the shortage of skilled personnel and contextual experience. No less important is the absence of an organizational structure capable of providing effective policy advice to the top end of the relevant organizations.

5.2 Recommendations: ANC Department of Economic Policy

1. The ANC should move quickly to establish a "shadow" Economic Committee of Cabinet (the economic wing of the Working Committee). Each member would be responsible for a specific portfolio, e.g., Land, Rural Development, Money and Fiscal policy, Mines and Resources, Industry, etc., however the ANC feels responsibilities ought to be assigned.
2. This subcommittee would meet regularly at a fixed time, as it would do if it were exercising state power.
3. A senior member of the Working Committee would chair the meetings. The Head of DEP would be the "Secretary" of this subcommittee.

4. DEP staff should be strengthened with the addition of at least four analysts to support the shadow economic subcommittee. Each would specialize in an area or areas of economic policy affairs, servicing specific shadow economic portfolios. They would be responsible for drawing on outside research, directly and later, through the proposed Institute, to prepare policy/issue papers for discussion in the subcommittee. Such papers would be informed by the views of regional economic associations and could originate there; they could also be routed for discussion to REAs after consideration by the economic subcommittee and the Working Committee itself. Each of the specialists would be responsible for the gathering and processing of economic intelligence in the assigned area. A central library/filing system would be needed to ensure continuity in this important monitoring function. Other persons in DEP would have the responsibility for liaison: one with the international community, one with trade unions and the Democratic Movement, one with business and government, and one with REAs.
5. It is to be emphasized that a DEP with 10-12 staff is still very small given the tasks to be confronted. The DEP could also bring in sectoral experts for short periods of time, especially in the next 6 months, from within South Africa and, occasionally, from outside. Funds for travel, accommodation, and the buying of time and personnel costs would be needed for this. Funding for the additional staff proposed ought to be sought from sympathetic overseas governments and organizations.
6. Although the above recommendations will go a long way to ensure that economic policy making receives urgent and systematic attention in the ANC, related organizational improvements are required. A structure is needed to ensure the coordination of the activities of the different departments within the ANC. There is an overlap in jurisdiction between departments currently located in different organizational groupings, e.g., the Education Department is under the Human Resources Group, but, clearly, policy in this area will have important implications for the economy, dealt with in another group. It is important, therefore, that an institutional arrangement be made under which Department Heads meet regularly to coordinate their own activities.

5.3 An Immediate Start for a Macro-economic Research Group

There is general agreement that the needs of the MDM for the development

of economic policy, particularly macro-economic policy, are urgent. These needs are additional to those identified within the ANC and COSATU. What is required, therefore, is an arrangement that will enable progress to be made in this area as quickly as possible.

We suggest the creation of a Macro-economic Research Group (MERG) to stimulate and coordinate policy research and training in the identified priority areas. It would be developed and directed by a MERG coordinator, who would also liaise as necessary. Funds coming to the MERG would be administered by the institution at which its coordinator is employed. The coordinator would be answerable to a small Steering Committee including senior representatives of the democratic movement, notably ANC and COSATU, and his or her own institution.

The MERG would be organized as a collection of networks, operating, in the first instance, for 18 months. For each of the most urgent areas for research and policy analysis identified in Chapter 3 (macro-economic framework, tax policy, government expenditure restructuring, housing and infrastructure, financial system, labour markets, etc.), a "subject coordinator" would be appointed by the overall MERG coordinator, acting with the advice of his or her governing committee. The issues addressed under the relevant headings in Chapter 3 of this report could serve as a draft agenda for each of the "subject coordinators." The terms of these appointments could include the purchase of research time for the "subject coordinator," but they need not do so.

Each "subject coordinator" would be provided with a sum of money to be used, over the course of the next 18 months, for the commissioning of South African research, workshops, networking and, where appropriate and necessary, the use of foreign specialists. Commissioning of research could involve buying out the time of people employed in universities, technikons, trades unions, or service organizations, or for paying salaries to people currently unemployed. Funds could also be used to bring in replacements for people the movement wishes to free up for such research; such replacements could come from within or outside South Africa and be employed for up to 1 year. As well, provision would be made for sending out members of the MDM for short-term attachments to foreign centres specializing in relevant policy areas and for bringing in foreign specialists for short periods to work with local researchers. MERG grants would cover travel costs and the cost of research materials and supplies. Special efforts should be made to bring in those within the country who have not yet been effectively involved in the preparation for a post-apartheid South Africa. All activities will be open and output will be publicly available.

Assuming the MERG functions well, it may be regarded as an initial phase of the proposed Institute for Economic Policy Research and Training.

Such an institute could eventually assist in the development of research and training in the many other key areas of economic policy identified in Chapter 3. In addition to his or her primary responsibilities for research management and liaison, the MERG coordinator could carry the principal responsibility, at the appropriate time, for moving from this first phase toward a more formalized research and training mechanism in the form of an institute. At that point, it may be appropriate to call in, perhaps with external support, the services of an experienced research administrator to help to establish appropriate administrative structures.

We suggest that DEP/ANC and COSATU take joint responsibility for searching for and deciding upon the most appropriate coordinator for the MERG, preferably within the next month, and that DEP call the first meeting to this end.

Funds should be sought from an external donor as soon as possible to permit the "freeing" of the coordinator on a full-time basis for an 18-month period. If possible, the coordinator should be at work by October 1991. Further external support will be required for the rest of MERG's activities, and approval of this support should be accelerated so as to permit the "subject coordinators" to begin their activities no later than December 1991.

5.4 An Institute for Economic Policy Research and Training

5.4.1 Background Perspectives

The MDM and, in particular, the ANC have identified an institutional structure as the most appropriate mechanism to meet the demands for macro-economic research and policy formulation. The proposal from the ANC/COSATU and DEP consultations (1990) in this regard was recently endorsed by the NEC of the ANC. Some initial work by the DEP in consultation with resource persons and sympathetic academics has already gone into this effort. In addition, several foreign governments (Australia and Germany) have indicated their willingness to support such an initiative.

Furthermore, limited financial and material assurances have already been received for organizing the logistical, institutional, and human resources necessary for the interim coordination of setting up the institute. This includes office space in Johannesburg. The demands for economic policy formulation, however, are so pressing that it cannot await the establishment of an institute before the research is undertaken. Thus, it is necessary to establish an interim arrangement that will meet the objectives within the next 6 months. The objectives of the interim arrangement have been laid out earlier.

5.4.2 Action in Relation to MERG

Apart from the coordination of the immediate research needs for policy formulation, the MERG Coordinator will be responsible, in consultation with the Coordinating Committee, to designate a person dealing with the feasibility study and implementation of the Institute.

In deciding on an appropriate institutional base, the following considerations need to be taken into account:

- * the sensitivities of the ANC, COSATU, other elements of the MDM, and the donors;
- * the existing research and logistical capacity of a given institutional base and the eventual material requirements for the institute;
- * the need for immediate implementation for the interim arrangement;
- * the need for relative autonomy for the institute; and
- * the need for proximity to the ANC Headquarters and the DEP in particular.

The case for the institute and suggested functional structure have been presented separately.

5.5 Trade Unions

Trade unions should be given assistance to enhance

1. The capacity of the relevant COSATU commissions and to strengthen the federation's ability to absorb policy formulation work.
2. Their ability to disseminate basic economic policy issues and information widely among their membership in a form that can be understood.
3. Their capacity to commission research and policy formulation work.

5.6 Economic Trends

Economic trends should formulate concrete measures for broadening the representation of its membership in terms of race and gender. It should also develop proposals for integrating the training function into its work.

Given the plans of ET to expand its capacity to manage the ambitious industrial strategy research project, to broaden the racial and gender base of its membership, and to develop a training component, consideration should be given to making the positions of both the coordinator and the administrator full-time ones.

5.7 Service Organizations

The work of service organizations with whom we met is generally very well coordinated through existing mechanisms; however, in some instances research into macro or sectoral economic policy formulation seems to overlap. The service organizations need to look more closely at this and at how they interface with others working in the research policy area.

5.8 Universities

Formal discussion should be held between university administrators and the leadership of the MDM to improve the general climate for conducting policy research on the university campuses. In particular, the MDM must secure university cooperation in the release of staff willing and able to participate in the policy formulation process.

University departments and institutes housing economists able and willing to assist policy formulation should develop concrete plans for staff release and replacement over the next 3 or 4 years and assess the cost implications of this.

5.9 Business and Government

Business and government should be urged by the MDM and by the international community to allow unconditional access to information required for macro and sectoral economic policy formulation.

Independent research and policy analysis is severely constrained when there is restricted access to relevant government and business materials. The provision of access to information and in-house analyses, and overall transparency more generally, on the part of both state agencies and private business can be major contributors to the development of expertise and informed policy formulation in the democratic movement. Some state institutions have offered their full cooperation to analysts in the democratic movement. Other state bodies and many in the private sector have not. We recommend that there be full and frank responses from government and the private sector to requests from those in the democratic movement, whether formal or informal, for data and information important for public policy analysis, and full cooperation when requested, on meetings, workshops, and the like.

Private business and government should provide greatly increased opportunities for the full development of experience and expertise at senior levels on the part of black and female economists and administrators. It is high time for the "glass ceiling" on black and female advancement in establishment institutions to be broken.

Private business and government should go beyond the overdue provision of equal opportunities to affirmative-action programs for blacks and females. Active search and recruitment, training programs, monitoring and public disclosure of changing employment patterns, and the restructuring of institutions and practices so as to be fully supportive of the changing patterns, are all necessary and appropriate. We particularly recommend the careful development of affirmative-action programs in the critical areas of economic management and economic administration, on which so much in the future of South Africa will depend.

6. RECOMMENDATIONS FOR EXTERNAL SUPPORT

6.1 Modes of External Support

Our assessment suggests that there is considerable capacity within South Africa to provide high-quality advice on many issues of economic policy. Unfortunately, this capacity is typically already being used for other purposes. Means must be found to reallocate it for these potentially highly socially productive purposes, and, in some cases, to do so very quickly. The most important role for external inputs is surely to facilitate this internal reallocation of resources. This can be achieved through

1. Direct purchasing of local consultants' time and the provision of supportive assistance for the purpose of the study of key policy issues and the assessment of alternative policy options.
2. The provision of resources to local institutions of policy research or to those in key "shadow" policy positions to permit them to commission studies from local consultants on issues that they identify as important; plans for a local institute of economic policy research and training are already well developed (see section 5.4).
3. The support of local workshops, networks, and conferences on identified areas of high priority.
4. The provision of external person-power to meet the needs of the institutions from which key people have been drawn to meet the country's urgent policy analysis needs.

We suggest specific support of all four types in section 6.2 below.

More traditional forms of external technical assistance can also play an important role. Our experience in this mission leads us to recommend that, wherever possible, external sources of assistance work closely and collaboratively with local personnel; in this way, full local advantage can be taken of the positive informational and other externalities of such work, local capacity building can be encouraged, and, through better use of local knowledge, the quality of the research and advice can be significantly improved. The purchase of direct provision of technical assistance can be most useful when

1. There is a need for detailed knowledge that is unavailable at a high enough level within South Africa, e.g., of the current frontier of international literature or direct policy experience elsewhere in the world.
2. The external source is truly knowledgeable in the relevant sphere and already enjoys or quickly earns the full confidence of the South Africans who seek his or her assistance.

This type of external assistance can take many forms, for example:

- * short one-off or possibly periodic visits from a knowledgeable outsider;
- * the provision of a person to work on a prescribed subject (or subjects) for a longer period of time; and
- * the provision, perhaps on a retainer basis, of advice or other work on local policy issues or related matters, without actually visiting South Africa.

External assistance should be provided in a sensitive and supportive way that economizes on transactions costs. It is imperative that agreed means quickly be found for donors to shift from the earlier modalities, appropriate for support for a liberation movement, to new ones geared to the achievement of post-liberation development. Whereas these are general requirements for donors, there is a particularly urgent need for the development of expertise and experience in economic analysis and economic policy formation. It would be helpful if, as early as possible, assistance were coordinated, via periodic meetings among the relevant donors, key recipients (identified in this report), and objective monitors of the process (perhaps the current IDRC group).

6.2 Specific Recommendations for External Support

1. Immediate support from sympathetic governments and agencies for the purpose of strengthening the capacity of the DEP to perform its critical functions in support of the ANC leadership; this should permit the addition of four to six professionals, necessary support for them, and funds to permit the occasional import of external expertise.
2. Early support for the development of a macro-economic framework and for the launch of the Macro-economic Research Group (MERG) to

stimulate research and training in other most urgent areas: tax policy, plans for the restructuring of government expenditure, housing policy, policies for the financial system, policies for labour, employment creation, and income; in the first instance, support for the released time of the coordinator, to be followed by support for six subject networks, each headed by a "subject coordinator."

3. At an appropriate time, within the next 18 months, support for the establishment of an Institute of Economic Policy Research and Training, and strong institutional support (untied to specific activities) thereafter.
4. Assistance in the identification of appropriate foreign expertise to meet the identified specialized needs of South African economic research and training institutions, and to fill vacancies left by South Africans who have been drawn into economic policy research and formulation.
5. Support for the development of economics expertise at all levels in the trade unions and service organizations via training, international exchange, workshops, etc.
6. Support for a major conference or workshop to permit South African economists to draw on the experience of others and to exchange ideas among themselves concerning the best means of developing economic research and analytical skills, through both formal programs and involvement in others' research, for educationally disadvantaged peoples.
7. Support for periodic meetings among external donors, key recipients, and objective monitors to coordinate activities and, in particular, for a review of progress with the implementation of the recommendations of this report, by a mission comprised broadly of the same members as this one, to be undertaken within a year of the delivery of this report.

APPENDIX: ORGANIZATIONS CONSULTED DURING THE MISSION

Association of Black Accountants of South Africa (ABASA)
Association for Rural Advancement (AFRA)
African National Congress (ANC)
Black Management Forum (BMF)
Built Environment Support Group (BESG), University of Natal
Centre for Health and Social Studies (CHESS), University of Natal
Centre for Organisation, Research and Development (CORD), University of
Natal
Community Research Unit (CRU)
Congress of South African Trade Unions (COSATU)
Department of Economics, University of Fort Hare
Department of Economics, University of Natal
Department of Economics, University of Stellenbosch
Department of Economics, University of the Western Cape
Department of Economics, University of the Witwatersrand
Development Bank of Southern Africa (DBSA)
Development Policy Research Group (DSRG), University of Natal
Econometrix
Economic Policy Research Project (EPRP), University of Western Cape
Economic Research on South Africa (EROSA)
Economic Research Unit, University of Natal
Economic Trends Group (ET), University of Cape Town
Education Policy Unit (EPU), University of the Witwatersrand
Energy Research Unit, University of Cape Town
Human Sciences Research Council (HSRC)
Institute for Social Development, University of Western Cape
Independent Development Trust (IDT)
Industrial Development Corporation (IDC)
Industrial Relations Project, University of Cape Town
Industrial Strategy Project, University of Cape Town
Institute for Social and Economic Research (ISER), University of
Durban-Westville
Labour and Economic Research Project (LERP)
Labour Research Service (LRS)
Local Government Project, University of Western Cape
National African Federated Chamber of Commerce and Industries (NAFCCI)
National Council of Trade Unions (NACTU)
National Management Forum (NMF)
National Medical and Dental Association (NAMDA)
National Union of Metal Industries of South Africa (NUMSA)



National Union of Mineworkers (NUM)
Medical Research Council (MRC)
Office of the Vice Chancellor, University of the Western Cape
Office of the Principal, University of Transkei
Planact
Reserve Bank of South Africa
South African Chamber of Business (SACOB)
South African Labour and Development Research Unit (SALDRU), University
of the Cape Town
Trade Unions Research Project (TURP), University of Natal
Urban Foundation (UF)